



CITY OF SAN DIEGO

TO: Honorable Council President Hueso and Members of the City Council
FROM: Darren Pudgil, Director of Communications, City of San Diego *DP*
RE: Analysis of "City's Payroll Surged in '08," San Diego Union-Tribune, June 28, 2009
DATE: June 29, 2009

Despite being alerted to its many distortions and deficiencies, the Union-Tribune published an article Sunday about city payroll in which accuracy and perspective were utterly lacking.

We have analyzed the piece and provide you with our response below. I will address the errors, omissions and distortions as they appear in the article. My comments appear in bold.

City's Payroll Surged in '08

By Eleanor Su and Craig Gustafson, STAFF WRITERS,
and Agustin Armendariz, STAFF DATA SPECIALIST

San Diego's payroll ballooned by \$41 million last year, fueled by unpublicized payouts, labor settlements and costly benefits, an analysis by *The San Diego Union-Tribune* has found.

This statement is a gross distortion of the truth – which is that payroll costs have shrunk over four years, and that they will shrink even further next year, despite an aberration that took place 2008.

An honest and accurate summary of the information analyzed by the Watchdog Team would be:

“Due to an unusual confluence of events that is unlikely ever to be repeated, City payroll costs rose in calendar year 2008 after three years of negative growth. Payroll costs are projected to return to their former levels this year and next year as the result of cost-cutting measures initiated by Mayor Jerry Sanders and approved by the City Council.

“ The increase in 2008 was an aberration due to multiple factors: pay raises to public-safety officers, which Sanders endorsed to end attrition in the Police and Fire-Rescue departments; pay raises to other unionized employees that were negotiated under a previous administration; a spike in overtime, primarily among Fire-Rescue personnel summoned to an unusually high number of out-of-city disasters and whose pay for those events will be reimbursed to the City under mutual aid pacts; and settlements of labor disputes that resulted in the City’s returning money to employees that they contributed to the City in previous years.”

It’s not exciting, but it’s the truth. And the Watchdog Team knows it. This information was provided to the Watchdog Team during the reporting process, and then codified in a memo from our Comptroller’s Office to the reporter.

The Watchdog Team was provided financial information covering six calendar years. It chose to focus exclusively on one statistic -- the change between calendar years 2007 and 2008 – and even then did not tell that story completely.

The premise of this story would crumble quickly if readers were given the full context, including the fact that City workers had gone without pay raises for two full calendar years and that City payroll had decreased markedly in 2007 and 2006 after rising by less than 1 percent in 2005.

The only purpose in omitting these important data points was to fool readers into thinking the aberration of 2008 is representative of a larger trend, though it is not.

The increase challenges rhetoric by both union leaders and Mayor Jerry Sanders about frozen salaries and labor cost reductions. Employee compensation grew by 6 percent last year.

This suggests false claims were made, though of course none are produced. Mayor Sanders has never claimed a salary was frozen when it was not. And on those few occasions that pay raises have been negotiated on his watch -- which they were to firefighters and police officers -- he publicly explained the rationale behind them.

The newspaper analyzed salary, overtime and other compensation paid to each of the city's 12,000 full-time, part-time and seasonal workers. The data, obtained through a California Public Records Act request, showed:

- About 80 percent of city employees took home more money in 2008 than the previous year.

- Nearly 900 employees received promotional and other pay increases exceeding 10 percent last year.
- About 1,400 workers saw double-digit increases when overtime was factored in.

For a full discussion of the Watchdog Team's analysis of pay raises, see the comments that begin on Page 5.

- The proportion and number of city employees making at least \$100,000 have almost tripled in the past six years. Thirteen percent of the payroll is in this top category.

This is typical of the Watchdog Team's deceptive presentation. Shortly after suggesting its information repudiates claims by Mayor Sanders, it uses a statistic that covers a six-year period, knowing he was in office for only three of those six calendar years.

Last year's \$41 million boost in payroll was more than the increases of the past four years added together. It was equivalent to the city giving an additional \$3,400 to each employee.

As these pay raises were the only ones given to employees over three calendar years, this \$3,400 figure has no meaning.

At the beginning of fiscal year 2006, employees represented by MEA, Fire Local 145 and the Deputy City Attorneys Association all had their take-home pay reduced approximately 3 percent as a result of the FY 06 contract negotiations, in which they were required to pick up an additional 3 percent of their retirement contribution. The POA increased its pick-up by 3.2 percent at the same time. In addition AFSCME Local 127 agreed to a 1.9 percent salary reduction during the same fiscal year.

There is no explaining why this was omitted from the Union-Tribune's story. All of these actions were taken in public and reported by the media.

The mayor's office calls the increase "an aberration" due to factors that include the labor settlements, union contracts negotiated by the previous administration and a pay raise Sanders supported for public safety employees.

Still, it helps put into perspective the \$43 million in wage and benefit reductions that will take effect July 1 to address a budget gap. Sanders portrays the 6 percent reductions as historic and difficult, yet the savings are about the same as last year's growth in payroll.

As I think the City Council knows better than anyone, this 6 percent reduction was, in fact, historic and difficult. But more importantly, it is a long-term reduction, not a one-time reduction.

The Union-Tribune makes a false and misleading comparison when it compares permanent reductions in payroll with one-time increases, as well as when it erroneously refers to those one-time increases as "growth in payroll," a term that is commonly understood to refer to permanent salary increases that will be sustained year over year.

The Watchdog Team was provided with a detailed explanation of that \$41 million figure in the memo from Marcelle Voorhies Rossman, a financial operations manager in the Office of the Comptroller. Your offices received that same memo last week.

As the memo makes plain, nearly half of that \$41 million increase was due to the \$11 million settlement with labor unions and \$6.5 million in overtime – two-thirds of which is attributed to the City’s response under mutual aid contracts *and so is fully reimbursed to the City by the state and federal governments.*

By comparison, the \$43 million in wage and benefit reductions that take effect July 1 are permanent reductions that will continue to benefit taxpayers in each successive fiscal year.

Throughout his three years as mayor, Sanders has trumpeted “tough fiscal discipline.”

“I’d like nothing more than to be able to recognize their (employees’) hard work with a pay increase,” Sanders said at a news conference last year after butting heads with labor unions in negotiations. “But as your mayor, my first and only allegiance must be to the taxpayers and improving our city’s financial health.”

The message was clear: The vast majority of city employees would have to forgo salary increases.

Across-the-board raises were held at bay for some employees, but the newspaper found thousands benefited from pay hikes, merit increases, special payouts, union settlements and unusual cashed-out health and vacation benefits.

Clearly, the Watchdog Team does not understand the nature of these union settlements in describing them as a benefit to employees. These settlements *returned* money to employees that in preceding years they had contributed to the City according to the terms of their negotiated contracts.

Sanders declined interview requests for more than two weeks, and then held a news conference Thursday to say payroll expenses have fallen during his time in office.

“I think we’ve done a great job,” he said in an interview afterward, noting that some raises last year were negotiated by a previous administration. “The fact that we’re down now below the first year that I took office, given inflation and given pay raises, I think means that we’re controlling those costs.”

The newspaper’s analysis initially surprised senior city officials and union leaders. “It seems crazy,” Scott Chadwick, the city’s chief labor negotiator, said of the newspaper’s finding that close to 1,000 employees received pay increases of 10 percent or more.

Several union leaders were in disbelief when told the payroll grew by 6 percent, and that dozens of employees had increases of 30 percent or more in total compensation.

They were apparently not considering all the ways pay can increase every year: merit increases, promotions, overtime and step increases – which give employees more money as they gain experience.

In a subsequent interview, city officials confirmed many of the newspaper's findings, but downplayed the increases.

"I'd argue that's not a big trend," said Marcelle Voorhies Rossman, a financial operations manager in the comptroller's office.

Rossman said officials were surprised by the numbers because typically analyze by fiscal year, by pay period and by department. The newspaper analyzed calendar year figures because that's how the city released the payroll data.

The comments by Rossman and Chadwick were mischaracterized by the Watchdog Team.

What Rossman said in her memo was "...(W)e are not accustomed to viewing these numbers in the way you presented them. Cities do not view budgets by calendar year, and, in our jobs, Scott and I focused primarily on changes within individual departments, between pay periods, or between budgeted and actual costs."

As you know, our budgets are based on the standard July 1-June 30 fiscal year. Because budgets are a public process and approved by the City Council, this is how the public is able to hold the City accountable to its promises and plans. It is also how we hold ourselves accountable to our budgets. All our trend analysis is based on the fiscal year and how individuals' and departments' budgeted compensation changes from year to year and how it compares with actual expenditures.

Giving Rossman and Chadwick their interpretation of calendar-year data and recording their initial reaction to it amounts to an ambush – especially when, upon their having an opportunity to analyze the data, they easily made sense of the numbers.

While she acknowledged more than 1,000 employees received pay increases of 10 percent or more, she said the city only considered 286 of them raises. The others had circumstances such as promotions or special payouts, she said.

Rossman is correct in saying the City "only considered 286 of them to be pay raises." That's because the accepted definition for a pay raise is an increase in pay for doing the same job.

When someone receives a promotion, they are not doing the same job. When someone receives a settlement resulting from a union grievance, they are not receiving a raise. When someone receives pay-in-lieu for vacation time they did not take, they are not receiving a raise. When someone is injured in one year, and so receives less money than he or she did the year he or she was returned, the employee did not receive a raise.

About one - quarter of the increase – \$11 million – resulted from union settlements over unpaid pension obligations. After subtracting that, payroll increased only 4 percent, Rossman said.

That surpassed the average 3.1 percent boost that state and local government workers nationwide received last year.

Another fraudulent comparison. City employees went the previous two years with no pay raise whatsoever, and some actually took a pay decrease. State and local government workers did not do the same.

Moreover, the 4 percent figure includes the overtime city workers earned in 2008 and unused vacation pay. It's highly unlikely the 3.1 percent boost for state and local government workers includes overtime and unused vacation pay. The source of that information is not given.

City officials provided a general breakdown of the rest of the \$30 million increase, saying \$22.5 million was from union contracts, \$6.5 million stemmed from overtime and nearly \$1 million was unused vacation time cashed out by employees who had been terminated.

The database the city provided in response to the newspaper's request included salaries and overtime paid to each employee by name, but not details of pay categories, such as merit increases or bonuses. The city said it would charge the newspaper at least \$1,900 to provide more specifics.

That \$1,900 is the cost of creating specialized computer programming to produce the statistics your reporter requested. A more accurate phrasing would be:

The city said it would cost taxpayers at least \$1,900 to create a computer program could provide those specifics, a sum the newspaper declined to pay.

In interviews and data analysis, the newspaper learned other reasons for the increase in last year's \$732 million payroll:

- About 55 percent of city employees receive special payouts, called add-ons. There are more than 100 types of add-ons, and they typically compensate for additional duties, undesirable shifts or extra training. City officials would not say how much add-on expenses have changed year to year. But union contracts showed new add-ons increased or expanded payouts for police and fire personnel last year.
- Overtime pay surged by 12 percent last year, largely among police officer and firefighter ranks.

This was another opportunity for the Watchdog Team to tell the truth, which is that the majority of this overtime was incurred by employees fighting fires and responding to hurricanes outside of San Diego, and that those costs are fully reimbursed to the City by other agencies.

The Watchdog Team chose not to tell the truth, though this information was provided to them in the memo from Marcelle Rossman.

Promotions accounted for some pay increases of 30 percent or more. About 5 percent of employees are promoted in any given year, said Chadwick, the city labor negotiator.

- More employees took advantage of a benefit that enables them to cash out up to 3.1 weeks of unused vacation and sick time per year – an option generally allowed in the private sector only upon termination. The benefit cost the city about \$5.7 million last year, a 14 percent increase from the year before.

Officials emphasize that the city must pay what the marketplace demands, or workers will look elsewhere.

“If you compare the city of San Diego to others across the state, we don't have a lot of employees who are the highest paid,” Chadwick said. “Actually, it's quite the opposite.”

Last year, the city commissioned reports to measure how its pay for police and fire personnel stacked up against about 20 cities across Southern and Central California. The reports focused on base salaries and employees' contribution to health and pension plans, and showed San Diego paying less than several other cities.

That type of analysis is problematic, experts say, because total compensation includes many components that vary widely.

All analyses between public agencies are problematic. You don't need an "expert" to tell you that. It's one reason the City contracts professionals to conduct these comparisons.

Yet in this same story, the Watchdog Team serves up comparisons made by reporters untrained in this type of financial analysis. This selectivity undermines the Watchdog Team's claim to objective analysis.

Critics say it's not a question of whether the city pays more than other cities. It's whether San Diego can afford to pay what it does.

“Our elected officials are not strong enough to take on the unions,” said Peter Q. Davis, a retired bank president and former mayoral candidate. “I don't think the city draws the line and says, 'This is the maximum we can afford to pay.' ”

David Monroe, a parks manager, received one of the city's largest raises last year. His 27 percent boost in pay catapulted him into the city's fastest-growing income group, those making \$100,000 or more. Monroe's pay jumped when he switched from overseeing brush management and park ranger programs to managing dozens of parks, recreation centers and city pools.

Monroe said he worked hard for the \$120,700 he made last year.

"You want to see the gray hair and bags under my eyes?" Monroe said, referring to his 40-hour to 70-hour work weeks as one of the city's four deputy directors of parks and recreation. "Sheesh. It's nonstop."

Pamela Hightower, deputy director of the personnel department, watched her pay grow 37 percent to \$119,800 last year when she was promoted from a supervising personnel analyst. In her previous position, Hightower oversaw two individuals. Now she supervises about 40.

"It's a completely different level of responsibility," Hightower said.

The data the city provided the Union-Tribune make it impossible to know an individual's circumstances.

The Health Insurance Portability and Accountability Act prohibits the City from releasing employee medical information, and is the reason it is "impossible to know an individual's circumstances" by viewing the data the city provided the Union-Tribune.

In the case of San Diego police officer Jeff Chione, below, he volunteered the information when he was interviewed by the Union-Tribune. Had the City volunteered that information, it would have been violating the law, as the Union-Tribune knows.

For example, San Diego police officer Jeff Chione said his 115 percent pay increase was overstated because he was out recovering from a work-related neck surgery in 2007.

Chione's total compensation bounced from \$43,600 in 2007 to \$94,000 last year. While he acknowledged receiving various forms of additional pay, including \$4,200 in cashed-out vacation time, Chione said the numbers only tell part of the story.

"If I got that much in a raise, I'd like to see it," said Chione, a 15-year department veteran.

City officials say they are doing their best to pay market rates while balancing the city's budget.

But critics wonder about the ongoing costs of the growth in payroll.

As discussed earlier, City payroll is not growing. It has shrunk since Mayor Sanders took office, and will be less in fiscal year 2010 than it was in fiscal year 2009.

"This has a double-whammy effect," said Richard Rider, a former mayoral candidate and chairman of San Diego Tax Fighters. "It's going to come back and gouge taxpayers again in the form of higher pensions."

As is often the case when the Watchdog Team turns to "critics" to validate its flawed analysis, it welcomes interpretations that are equally flawed.

The Union-Tribune has to be aware, as you are, that overtime and negotiated settlements do not impact employees' pensionable earnings and so would not result in "higher pensions."

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In conclusion, the Watchdog Team was given unprecedented access to City records and personnel as they reported on this issue. Yet, the result of their work is a terribly flawed story.

It is easy to conclude that the Watchdog Team, having devoted as much as four months' time to this analysis, felt obligated to engineer a story that justified the resources put into it.

Unfortunately, through a series of errors, omissions and an overall lack of perspective, the article did a grave disservice to the readers of the Union-Tribune and City employees alike.